

**INDEPENDENCE LIGHT AND POWER,
TELECOMMUNICATIONS**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

DECEMBER 31, 2012 AND 2011

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Management's Discussion and Analysis	6-17
Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	18-19
Statement of Revenues, Expenditures, and Changes in Net Position	20
Statement of Cash Flows	21-22
Notes to Financial Statements	23-32
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenses and Changes in Net Position – Budget And Actual (Cash Basis)	33
Note to Required Supplementary Information – Budgetary Reporting	34
Supplementary Information:	<u>Schedule</u>
Treasurer's Balance Composition	1 35
Schedule of Operating Expenses	2 36-37
Schedule of Expenditures of Federal Awards	3 38
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	39-40
Independent Auditor's Report on Compliance for Each Major Federal Program, on Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133	41-42
Schedule of Findings and Questioned Costs	43-48
Staff	49

INDEPENDENCE LIGHT AND POWER, TELECOMMUNICATIONS

Officials

Board of Trustees

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Brian Meyer	Chairperson	December 2013
Cyndi Bergeson	Trustee	December 2015
Jerry Stelter	Trustee	December 2015
Leon Bachman	Secretary-Treasurer	December 2017
Linda Dugan	Trustee	January 2018

Utility Officials

Charles E. Ward, Jr.	General Manager	indefinite
Ronald J Curry	Assistant General Manager	indefinite
Kevin M Sidles	Line Superintendent	indefinite
Linda J Kress	Office Manager	indefinite
William J Runge	Telecommunications Superintendent	indefinite

City Officials

Carl Scharff	Mayor
Jeanne Hermsen	Council Member
Dennis Vaughn	Council Member
Richard Engen	Council Member
Arletta Schweitzer	Council Member
Bonita Davis	Council Member
Jon Holland	Council Member
Robert Hill	Council Member
Barbara Rundle	City Clerk
Steve Diers	City Manager

RFSW Ridihalgh Fuelling
Snitker Weber & Co.
C E R T I F I E D P U B L I C A C C O U N T A N T S

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.
Jeremy P. Lockard, C.P.A.

14 East Charles St, PO Box 639
Oelwein, IA 50662
(319)283-1173
Fax (319)283-2799

Independent Auditor's Report

To the Board of Trustees
Independence Light and Power, Telecommunications
Independence, Iowa 50644

Report on the Financial Statements

We have audited the accompanying financial statements of the business type activities of Independence Light and Power, Telecommunications (a municipal utility), a component unit of the City of Independence, Iowa, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Utility's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utility's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business type activities of Independence Light and Power, Telecommunications as of December 31, 2012 and 2011, and the respective changes in

financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, and the Budgetary Comparison Information on pages 6 through 17 and 35 through 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independence Light and Power, Telecommunications' basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the six years ended December 31, 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 3, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2013 on our consideration of Independence Light and Power, Telecommunications' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Independence Light and Power, Telecommunications' internal control over financial reporting and compliance.


RIDIHALGH, FUELLING, SNIFFER, WEBER, & CO. P.C., C.F.A.'S

November 21, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

Independence Light and Power, Telecommunications (the Utility) provides this Management's Discussion and Analysis of its annual financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2012. The Independence Light and Power, Telecommunications provides electrical, cable, internet, and telephone services to the citizens of the City of Independence (the City) and is a component unit of the City. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Revenues of the Utility for 2012 were \$11,961,186. This is an increase over revenues in 2011 of 8.5%.
- Disbursements for 2012 totaled \$10,640,931. This is an increase of approximately 4.2% from 2011.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis – This introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.
- The Basic Financial Statements – These consist of the Statement of Net Position, Statement of Revenues and Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements. The previous mentioned financial statements provide information about the activities of the Utility as a whole and present an overall view of the Utility's finances. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Supplemental Information – This provides additional information about the Utility's financial activities in addition to the basic financial statements.

BASIS OF ACCOUNTING

The Utility maintains its financial records on the accrual basis of accounting which is in conformity with U.S. generally accepted accounting principals. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

FINANCIAL ANALYSIS OF THE UTILITY

Net Position may serve over time as a useful indicator of financial position. The Utility's Net Position, including any prior period adjustment, increased by \$1,320,255 from 2011 to 2012.

Assets, Liabilities, and Net Assets

	<u>2012</u>	<u>2011</u>
Assets		
Current Assets	\$ 4,177,046	3,393,653
Capital Assets:		
Capital Assets	25,756,587	25,289,298
Less: Accumulated depreciation	(15,562,735)	(14,713,881)
Total Capital Assets	10,193,852	10,575,417
Board Designated Funds	4,565,882	4,533,306
Other Assets	<u>1,074,820</u>	<u>460,298</u>
Total Assets	<u>\$ 20,011,600</u>	<u>\$ 18,962,674</u>
Liabilities		
Current Liabilities	\$ 1,867,374	\$ 2,148,424
Other Liabilities:		
Accrued retirement insurance	455,221	482,726
Note payable – BankIowa	-	-
Note Payable – USDA Revolving Loan Fund	300,000	300,000
Electric revenue project note payable	3,151,839	3,755,648
Less: Current portion of long-term debt	(510,204)	(496,571)
Total Other Liabilities	<u>4,051,524</u>	<u>4,041,803</u>
Total Liabilities	5,918,898	6,190,227
Net Assets	<u>14,092,702</u>	<u>12,772,447</u>
Total Liabilities and Net Assets	<u>\$ 20,011,600</u>	<u>\$ 18,962,674</u>

Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>
Revenues:		
Sales to Customers	\$11,285,494	\$10,808,892
Miscellaneous Operating Revenue	229,291	118,918
Interest Income	53,047	62,787
Miscellaneous Revenue	393,354	34,688
Gain on Disposal of Assets	<u>-</u>	<u>-</u>
Total Revenue	<u>11,961,186</u>	<u>11,025,285</u>
Expenses:		
Generation Expenses	5,877,154	5,582,862
Distribution Expenses	388,366	371,924
Customer Accounts Expense	132,909	124,395
Administration and General Expense	828,156	849,157
Cable and Internet Expenses	2,052,269	1,738,789
Depreciation and Amortization	951,958	934,566
Benefits to Community and City	304,501	457,580
Interest Expense	93,834	153,250
Loss on Disposal of Assets	<u>11,784</u>	<u>2,990</u>
Total Expenses	<u>10,640,931</u>	<u>10,215,513</u>

Changes in Net Position	1,320,255	809,772
Net Position at Beginning of Year	<u>12,772,447</u>	<u>11,962,675</u>
<i>Prior period adjustment</i>	-	-
<i>Net Position at End of Year</i>	<u>\$ 14,092,702</u>	<u>\$ 12,772,447</u>

BUDGETARY HIGHLIGHTS

The Utility prepared and adopted the annual budget on December 9, 2011, which designated the amounts necessary for the improvement and maintenance of the Utility. The Utility did not exceed its budgeted expenditures for the year ended December 31, 2012.

DEBT ADMINISTRATION

At December 31, 2012, the Utility had long-term debt in the amount of \$3,151,839. During 2012, the Utility repaid \$603,809 of long-term debt.

BACKGROUND OF INDEPENDENCE LIGHT AND POWER, TELECOMMUNICATIONS

In 1893, the citizens of Independence voted by a 572 majority to build a municipal light plant. This building was located where Veterans Park is today. The flood of 1947 caused damage to the plant so they decided to move to a better location. In 1948, construction began on a new building at the present site. At that time the Mayor and City Council governed the Light Plant. In 1961 the City voted to have the Light Plant governed by a board of trustees.

During the construction of this building, two new Superior 1000kw generators were installed. These generators are still in use today. After these generators became operational they moved two Worthington generators from the old plant. These units have since been removed to make room for new Caterpillar generators.

As the City grew the demand for electricity also grew, so additional generation had to be added. In 1957, a twenty-foot addition was added to the west side of the building to make room for the installation of a 2500kw Worthington generator. In 1964, another addition was added to the west allowing space for two additional generators. At this time a 3200kw Worthington generator was installed. In 1973, a 6250kw Worthington generator was installed and a new Control Room was added to the south side of the building.

In 1975, the interconnection with Interstate Power Company was installed. This meant that the plant went to a standby status and power was purchased from Interstate Power Company. Power was generated during times of high usage and during emergencies. Presently we are still in a standby status and from May 1996 until May 2006, we have been purchasing power from Dairyland Power Company. On April 20, 2006 a contract was signed with Wisconsin Energy, (WPPI) to purchase power beginning May 1, 2006 for a period of 30 years.

In October of 1979 the Line Shop moved to their present location. In 1987, we began to upgrade the electrical distribution system from 2400 volts to 12,470 volts. This upgrade was completed in January of 2002. In order to better serve our customers, a drive-thru pay window was installed in 1992 and the billing functions were moved from City Hall to the plant.

In 1995, two 1860kw Caterpillar generators were installed in place of the 1935 generator. In March of 1999, the 1939 generator was also removed to make room for additional Caterpillar generators. In May of 2000 three 1860kw Caterpillar generators came on line. In 2007 the two 1949 Superior generators were retired and currently the total generating capacity of the plant is 21,250kw.

In November of 1997 by a majority vote, the citizens of Independence approved the formation of a telecommunications company. A new administration building was built across the street from the plant and in May of 2000 the office and management personnel moved in. The vacated office area at the plant was remodeled for the new telecommunications

equipment. Cable TV became operational in December of 2000 and internet on May of 2001. In 2006, telephone service, or Voice Over Internet Protocol (VOIP) was added as an additional service.

In June of 2003 work began on the site of the west substation. This substation was installed to handle the continued growth west of the river. It will also be used to serve the entire town when east substation needs to be taken out of service. We are continuing to stay abreast with our customers' needs and keeping a watchful eye to the future. Our goal is the same as our founders, to deliver low cost dependable power to all citizens well into the future.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers and creditors with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Ronald Curry, Interim General Manager, P.O. Box 754, Independence, IA 50644.

Independence, Iowa
ANALYSIS OF KILOWATT HOURS AND BILLINGS
For the Year Ended December 31, 2012
(unaudited)

	KWH Billed	Amount Billed	Revenue in cents/KWH	% KWH to Total	% Revenues to Total	Number of Accts
Type of Service:						
Residential Service	21,063,092	3,597,406	17.08	32.46%	44.27%	2,643
Security Lights	188,177	30,101	16.00	0.29%	0.37%	
Commercial Service	12,459,250	1,663,937	13.36	19.20%	20.48%	351
Demand Power	28,096,400	2,516,567	8.96	43.30%	30.97%	31
Total to Customers	<u>61,806,919</u>	<u>7,808,011</u>	12.63	<u>95.25%</u>	<u>96.09%</u>	<u>3,025</u>
Municipal Sales:						
Street Lighting	636,750	79,622	12.50	0.98%	0.98%	1
City Bldgs, Parks, Water Pumping	892,210	120,345	13.49	1.37%	1.48%	24
City Demand Power	1,373,280	117,889	8.58	2.12%	1.45%	2
Plant Lights, Office & Line Shop	179,075	0	0.00	0.28%	0.00%	
Total Municipal	<u>3,081,315</u>	<u>317,856</u>	10.32	<u>4.75%</u>	<u>3.91%</u>	<u>27</u>
Power Cost Adjustment	n/a		0.00	n/a	0.00%	
TOTALS	<u>64,888,234</u>	<u>8,125,868</u>	12.52	<u>100.00%</u>	<u>100.00%</u>	<u>3,052</u>

Analysis of Energy Generated:

Kilowatt Hours Generated	735,722
Less KWH Consumed by Station	<u>428,779</u>
KWH to Distribution Feeders	306,943
KWH Purchased	<u>67,913,178</u>
Total	<u>68,220,121</u>
Kilowatt Hours Billed and Metered	<u>64,888,234</u>
Line Loss in Kilowatts	<u>3,331,887</u>
Line Loss as a Percent to Total	4.88%

Revenue by Category: Power Cost Adjustment Separate
2012

	January	February	March	April	May	June	July	August	September	October	November	December	Total	Total for acct
Residential	1,715,588	1,921,069	1,676,727	1,344,991	1,284,751	1,533,686	2,119,534	2,893,572	2,034,267	1,513,166	1,391,547	1,634,194	21,063,092	21,063,092
Power Cost Adjustment													0	0
Commercial	978,814	1,039,099	996,637	975,584	917,895	1,044,536	1,208,300	1,262,865	1,133,046	1,027,201	928,593	946,680	12,459,250	12,459,250
Power Cost Adjustment													0	0
Industrial	2,097,040	2,225,020	2,117,920	2,237,660	2,176,640	2,518,320	2,764,620	2,503,460	2,442,760	2,407,080	2,280,880	2,325,000	28,096,400	28,096,400
Power Cost Adjustment													0	0
Security Lites	15,629	15,611	15,575	15,591	15,621	15,621	15,366	15,795	15,531	15,532	15,847	16,458	188,177	188,177
Street/Hwy	53,265	53,265	53,265	53,475	52,935	52,935	52,935	52,935	52,935	52,935	52,935	52,935	636,750	636,750
City Comm	68,332	59,521	51,512	54,348	59,576	99,972	131,072	100,993	77,084	66,552	58,294	64,954	892,210	892,210
Power Cost Adjustment													0	0
City Demand	121,200	115,440	113,200	121,680	114,160	117,920	121,360	108,240	110,240	110,000	107,840	112,000	1,373,280	1,373,280
Power Cost Adjustment													0	0
	5,049,868	5,429,025	5,024,836	4,803,329	4,621,578	5,382,990	6,413,187	6,937,860	5,865,863	5,192,466	4,835,936	5,152,221	64,709,159	64,709,159

INDEPENDENCE LIGHT & POWER
Independence, Iowa
ENERGY AND REVENUE ACCOUNTING REPORT
For Years Ended December 31, 2012, 2011, 2010, 2009, 2008
(unaudited)

	2012		2011		2010		2009		2008	
	KWH	%	KWH	%	KWH	%	KWH	%	KWH	%
1. Total Gross Energy (all sources; % of previous year)	68,648,900	103.8%	66,133,479	99.6%	66,370,141	109.8%	60,462,663	96.0%	63,581,565	101.0%
2. Purchased Energy (% of line 1)	67,913,178	98.9%	65,877,999	99.6%	66,126,335	99.6%	60,227,746	99.6%	63,416,663	99.7%
3. Total Gross Energy Generated (line 1 - line 2)	735,722	100.0%	255,480	100.0%	243,806	100.0%	234,917	100.0%	164,902	100.0%
4. Energy Consumed by Station (% of line 3)	428,779	58.3%	434,353	170.0%	439,630	180.3%	503,514	214.3%	494,250	299.7%
5. Total Net Energy Generated	306,943	41.7%	-178,873	-70.0%	-195,824	-80.3%	-268,597	-114.3%	-329,348	-199.7%
6. Total Net Energy Outgoing Feeders	68,220,121	100.0%	65,699,126	100.0%	65,930,511	100.0%	59,959,149	100.0%	63,087,315	100.0%
7. Net Distributed Energy (% of line 6)	64,888,234	95.1%	62,915,537	95.8%	62,761,123	95.2%	56,679,526	94.5%	59,741,896	94.7%
8. Energy Lost in Distribution System (% of line 6)	3,331,887	4.88%	2,783,589	4.24%	3,169,388	4.81%	3,279,623	5.47%	3,345,419	5.30%
ENERGY CONSUMED BY EACH SERVICE AND PERCENT CHANGE IN CONSUMPTION:										
	KWH	% Change	KWH	% Change	KWH	% Change	KWH	% Change	KWH	% Change
Residential Service	21,063,092	-1.6%	21,394,861	-1.1%	21,622,497	7.7%	20,079,480	-7.9%	21,173,027	-2.8%
Commercial Service	12,459,250	-0.4%	12,508,862	2.6%	12,194,628	18.9%	10,259,191	-4.9%	10,483,009	-2.8%
Demand Power	28,096,400	9.5%	25,662,280	0.3%	25,575,480	11.4%	22,952,060	-1.3%	24,582,420	5.7%
Security Lights	188,177	7.3%	175,372	1.9%	172,147	-2.2%	175,961	-6.1%	189,526	1.1%
City Bldgs, Parks, Water Pump, Traffic Signals	892,210	1.8%	876,386	5.6%	830,254	-6.2%	884,692	4.1%	877,646	3.2%
City Demand Accts: WWTP, Pump Station, Shop	1,373,280	-1.5%	1,394,480	-4.3%	1,457,200	2.1%	1,427,920	-0.5%	1,534,480	6.9%
Street Lights	636,750	-11.2%	716,988	0.0%	716,988	0.0%	716,988	0.1%	716,988	0.1%
Plant Lights, Office & Line Shop	179,075	-3.9%	186,308	-2.9%	191,929	4.7%	183,234	-1.5%	184,800	-0.6%
TOTAL	64,888,234	3.1%	62,915,537	0.2%	62,761,123	10.7%	56,679,526	-4.3%	59,741,896	0.9%
ELECTRIC SALES INCLUDING AVERAGE UNIT REVENUE PER KWH:										
	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents	Billings	Per Unit Revenue In Cents
Residential Service	3,597,406	17.08	3,629,986	16.97	3,456,833	15.99	3,248,101	16.18	3,010,313	14.22
Commercial Service	1,663,937	13.36	1,658,001	13.25	1,530,042	12.55	1,303,940	12.71	1,196,417	11.41
Demand Power	2,516,567	8.96	2,329,442	9.08	2,176,966	8.51	2,009,493	8.76	1,991,686	8.10
Security Lights	30,101	16.00	28,890	16.47	28,607	16.62	28,728	16.33	25,887	13.66
City Bldgs, Parks, Water Pump, Traffic Signals	120,345	13.49	116,298	13.27	104,212	12.55	111,084	12.56	99,267	11.31
City Demand Accts: WWTP, Pump Station, Shop	117,889	8.58	120,311	8.63	120,936	8.30	117,766	8.25	120,000	7.82
Street Lights	79,622	12.50	90,533	12.63	85,896	11.98	85,896	11.98	78,152	10.90
TOTAL	8,125,868	12.52	7,973,461	12.67	7,503,492	11.96	6,905,008	12.18	6,521,722	10.92

2012		2011		2010		2009		2008	
<u>KWH Generated</u>		<u>KWH Generated</u>		<u>KWH Generated</u>		<u>KWH Generated</u>		<u>KWH Generated</u>	
0		0		0		0		0	
101,916		44,776		23,652		25,365		12,901	
0		0		0		0		0	
95,000		45,000		24,000		22,000		21,000	
95,000		45,000		23,000		22,000		21,000	
102,611		44,290		23,511		26,116		13,035	
102,195		46,414		23,643		25,436		12,966	
88,000		6,000		28,000		22,000		18,000	
23,000		8,000		30,000		30,000		19,000	
<u>133,000</u>		<u>16,000</u>		<u>68,000</u>		<u>62,000</u>		<u>47,000</u>	
740,722		255,480		243,806		234,917		164,902	
67,913,178		65,877,999		66,126,335		60,227,746		63,416,663	
<u>68,653,900</u>		<u>66,133,479</u>		<u>66,370,141</u>		<u>60,462,663</u>		<u>63,581,565</u>	
Hours Operated	Operating Capacity	Hours Operated	Operating Capacity	Hours Operated	Operating Capacity	Hours Operated	Operating Capacity	Hours Operated	Operating Capacity
0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!
61.75	89%	27	89%	14.5	88%	15.5	88%	8.25	84%
0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!	0	#DIV/0!
57.75	88%	27	90%	15	86%	13.5	88%	12.75	89%
57.75	88%	27	90%	14.5	85%	13.5	88%	12.75	89%
62.25	89%	27	88%	14.5	87%	15.5	91%	8.25	85%
62.25	88%	28	89%	14.5	88%	15.5	88%	8.25	84%
49.75	71%	3.5	69%	16.25	69%	11.75	75%	8	90%
9	80%	3.5	71%	12.25	77%	11.75	80%	8	74%
27	79%	3.5	73%	12.5	87%	11.75	84%	9	84%
Fuel Consumed		Fuel Consumed		Fuel Consumed		Fuel Consumed		Fuel Consumed	
55,628 gal		19,217 gal		18,854 gal		17,028 gal		11,995 gal	
Total Fuel Cost	Unit Cost	Total Fuel Cost	Unit Cost	Total Fuel Cost	Unit Cost	Total Fuel Cost	Unit Cost	Total Fuel Cost	Unit Cost
137,058	2.464	39,566	2.059	40,074	2.125	36,749	2.158	26,455	2.205
0	0	0	0	0	0	0	0	0	0
Total Cost	Cents/ KWH	Total Cost	Cents/ KWH	Total Cost	Cents/ KWH	Total Cost	Cents/ KWH	Total Cost	Cents/ KWH
137,058	18.50	39,650	15.52	40,189	16.48	36,876	15.70	27,256	16.53
5,373,941	7.91	5,175,095	7.86	5,123,414	7.75	4,323,536	7.18	4,287,279	6.76
5,811,511	8.52	5,579,314	8.49	5,523,392	8.38	4,726,111	7.88	4,694,461	7.44
5,811,511	8.96	5,579,314	8.87	5,523,392	8.80	4,726,111	8.34	4,694,461	7.86
456,393	0.70	371,405	0.59	405,198	0.65	403,005	0.71	712,513	1.19
132,909	0.20	125,659	0.20	127,890	0.20	111,143	0.20	116,483	0.19
789,468	1.22	894,502	1.42	1,118,476	1.78	1,092,465	1.93	1,044,601	1.75
7,190,281	11.08	6,970,879	11.08	7,174,956	11.43	6,332,724	11.17	6,568,058	10.99
15,233 KW		15,266 KW		13,930 KW		12,720 KW		12,410 KW	
07/06/12 4:00 PM		07/19/11 5:00 PM		07/14/10 6:00 PM		7/23/09 3:35 PM		07/29/08 4:15 PM	

INDEPENDENCE LIGHT & POWER
Independence, Iowa
(unaudited)

Electric Rate Schedule

Effective January 1, 2011

Residential:	Service Charge	\$13.50
	All kWh	\$0.1498

Commercial:	Service Charge	\$20.00
	All kWh	\$0.12595

Industrial:	Service Charge	\$120.00
	Demand Charge	\$10.60 per KW
	All kWh	\$0.0630

An energy cost adjustment is made monthly to the above rates based on the utility's kWh sales and power costs.

Security Lighting Monthly Rental Fees

Effective January 1, 2009

100 Watt High Pressure Sodium	10.00
250 Watt High Pressure Sodium	15.00
400 Watt High Pressure Sodium	18.50
400 Watt Metal Halide	15.00
Metal Arch	10.00

INDEPENDENCE LIGHT AND POWER
Independence, Iowa

MONTHLY & YEARLY PEAK LOAD IN KILOWATTS
For the Year Ended December 31, 2012
(unaudited)

Date	KW	Time	Day
January 20	9,906	12:00 PM	Friday
February 13	9,521	7:00 PM	Monday
March 5	9,206	7:00 PM	Monday
April 16	8,657	12:00 PM	Monday
May 24	10,354	2:00 PM	Thursday
June 28	13,884	2:00 PM	Thursday
July 6	15,233	4:00 PM	Friday
August 3	14,271	5:00 PM	Friday
September 4	13,968	5:00 PM	Tuesday
October 2	8,908	8:00 PM	Tuesday
November 26	9,770	7:00 PM	Monday
December 26	10,193	7:00 PM	Wednesday

2012 Peak for the Year

July 6	15,233	4:00 PM
--------	--------	---------

Comparison

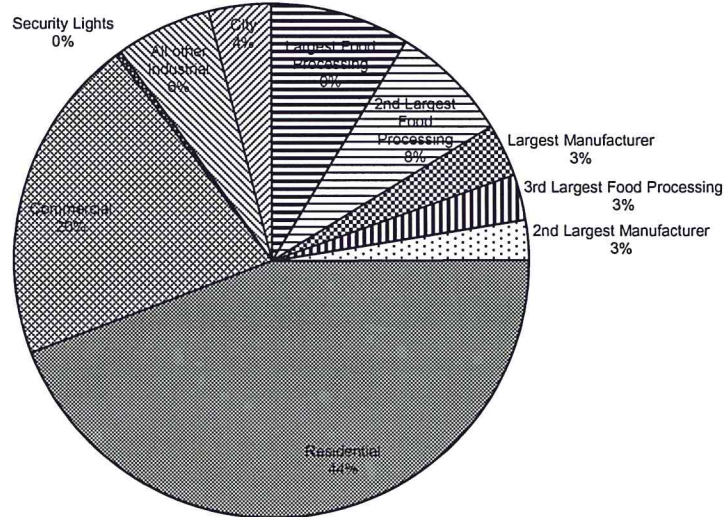
2011 Peak	15,266
2010 Peak	13,930
2009 Peak	12,720
2008 Peak	12,410
2007 Peak	13,398
2006 Peak	15,030
2005 Peak	16,580
2004 Peak	15,500
2003 Peak	17,000
2002 Peak	15,500
2001 Peak	16,310
2000 Peak	16,030
1999 Peak	16,310
1998 Peak	13,836
1997 Peak	13,950
1996 Peak	14,000
1995 Peak	15,800
1994 Peak	12,500
1993 Peak	12,600
1992 Peak	10,500

INDEPENDENCE LIGHT & POWER
Independence, Iowa

TEN LARGEST INDUSTRIAL CUSTOMERS
December 31, 2012
(unaudited)

	Customer	KWh Metered At Industrial Rate	Revenue	% of Total Revenue
Ranking:				
1	Food Processing	8,349,040	\$714,973	8.8%
2	Food Processing	6,949,120	\$611,181	7.5%
3	Manufacturing	2,956,800	\$269,406	3.3%
4	Food Processing	2,547,920	\$230,041	2.8%
5	Manufacturing	2,314,200	\$201,665	2.5%
6	Government	1,373,280	\$117,889	1.5%
7	Health Care	1,282,980	\$113,856	1.4%
8	Education	1,011,400	\$112,100	1.4%
9	Retail	611,120	\$58,110	0.7%
10	Retail	375,700	\$36,148	0.4%
	Total of Ten Largest	27,771,560	\$2,465,369	30.3%

INDEPENDENCE LIGHT & POWER
Independence, Iowa
2012 REVENUE BREAKDOWN
Shows 5 Largest Customers Individually
(unaudited)



Customer		KWh	Revenue	% of Total Revenue
1	Largest Food Processing	8,349,040	\$714,973	8.80%
2	2nd Largest Food Processing	6,949,120	\$611,181	7.52%
3	Largest Manufacturer	2,956,800	\$269,406	3.32%
4	3rd Largest Food Processing	2,547,920	\$230,041	2.83%
5	2nd Largest Manufacturer	2,314,200	\$201,665	2.48%
All Others	Residential	21,063,092	\$3,597,406	44.27%
	Commercial	12,459,250	\$1,663,937	20.48%
	Security Lights	188,177	\$30,101	0.37%
	All other Industrial	4,979,320	\$489,301	6.02%
	City	2,902,240	\$317,856	3.91%
Total Sales		64,709,159	\$8,125,868	100.00%

Basic Financial Statements

Independence Light and Power, Telecommunications

Statement of Net Position

December 31, 2012 and 2011

ASSETS:	2012	2011
Current Assets:		
Cash and cash equivalents	\$ 2,500,455	1,793,874
Accounts receivable, net	936,261	890,960
Unbilled revenues receivable	189,892	189,892
Interest receivable	7,498	10,202
Inventory	502,756	467,328
Prepaid expenses	40,184	41,397
Total Current Assets	4,177,046	3,393,653
Capital Assets	25,756,587	25,289,298
Less: Accumulated depreciation	(15,562,735)	(14,713,881)
Net Capital Assets	10,193,852	10,575,417
Board Designated Funds:		
Investment in transmission fund	266,365	277,648
Capital improvement fund	1,709,284	1,680,650
Retirement and severance fund	1,590,233	1,575,008
Self insurance fund	1,000,000	1,000,000
Total Board Designated Funds	4,565,882	4,533,306
Other Assets:		
Note receivable - USDA revolving loan fund	240,000	291,429
Note receivable - Wapsie Valley Creamery	654,668	-
Investment in transmission	180,152	168,869
Total Other Assets	1,074,820	460,298
Total Assets	\$ 20,011,600	18,962,674

See notes to financial statements

Independence Light and Power, Telecommunications

Statement of Net Position (continued)

December 31, 2012 and 2011

LIABILITIES AND NET POSITION:	2012	2011
Current Liabilities:		
Accounts Payable	\$ 686,465	677,576
Accrued wages payable	48,112	41,512
Accrued vacation and sick pay	590,957	901,130
Other accrued expenses	31,636	31,635
Current portion of long term debt	510,204	496,571
Total Current Liabilities	<u>1,867,374</u>	<u>2,148,424</u>
Other Liabilities:		
Accrued retirement insurance	455,221	482,726
Note payable - USDA revolving loan fund	300,000	300,000
Note payable - USDA	654,668	-
Electric revenue project note payable	3,151,839	3,755,648
Less: Current portion of long-term debt shown above	<u>(510,204)</u>	<u>(496,571)</u>
Total Other Liabilities	<u>4,051,524</u>	<u>4,041,803</u>
Net Position:		
Invested in capital assets, net of related debt	7,042,013	10,575,417
Unrestricted	<u>7,050,689</u>	<u>2,197,030</u>
Total Net Position	<u>\$ 14,092,702</u>	<u>12,772,447</u>

See notes to financial statements

Independence Light and Power, Telecommunications

Statement of Revenues, Expenditures, and Changes in Net Position

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Charges for services	\$ 11,285,494	10,808,892
Miscellaneous operating revenue	<u>229,291</u>	<u>118,918</u>
Total Operating Revenue	<u>11,514,785</u>	<u>10,927,810</u>
Operating expenses:		
Generation expenses	5,877,154	5,582,862
Distribution expenses	388,366	371,924
Customer account expenses	132,909	124,395
Administration and general expenses	828,156	849,157
Cable and internet expenses	2,052,269	1,738,789
Depreciation and amortization expenses	951,958	934,566
Benefits to community and city	<u>304,501</u>	<u>457,580</u>
Total Operating Expenses	<u>10,535,313</u>	<u>10,059,273</u>
Operating Income	979,472	868,537
Non-Operating Revenues (Expenses):		
Interest income	53,047	62,787
Interest expense	(93,834)	(153,250)
Gain (loss) on disposal of assets	(11,784)	(2,990)
Other revenue	<u>393,354</u>	<u>34,688</u>
Total Non-Operating Revenues (Expenses)	<u>340,783</u>	<u>(58,765)</u>
Changes in Net Position	1,320,255	809,772
Net Position, beginning of year	<u>12,772,447</u>	<u>11,962,675</u>
Net Position, end of year	<u><u>\$ 14,092,702</u></u>	<u><u>12,772,447</u></u>

See notes to financial statements

Independence Light and Power, Telecommunications

Statement of Cash Flows

Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Cash received from customers and users	\$ 11,242,896	10,740,757
Cash received from other revenues	316,688	153,606
Cash paid for services	(825,771)	(770,056)
Cash paid to suppliers	(8,808,030)	(8,339,805)
Net cash provided by operating activities	<u>1,925,783</u>	<u>1,784,502</u>
Cash flows from capital and related financing activities:		
Acquisitions of capital assets	(582,195)	(521,344)
Disposal of capital assets	19	-
Principal paid on revenue notes	(603,809)	(471,555)
Interest paid on revenue notes	(93,834)	(153,250)
Proceeds from long term debt issuance	654,668	-
Issuance of revolving note receivable	(654,668)	-
Repayment of revolving note receivable	51,429	51,428
Net cash used by capital and related financing activities	<u>(1,228,390)</u>	<u>(1,094,721)</u>
Cash flows from investing activities:		
Cash paid for investments	(11,283)	(11,679)
Interest on investments	53,047	62,787
Net cash provided by investing activities:	<u>41,764</u>	<u>51,108</u>
Net increase in cash and cash equivalents	739,157	740,889
Cash and cash equivalents beginning of year	<u>3,527,180</u>	<u>2,786,291</u>
Cash and cash equivalents end of year	<u>\$ 4,266,337</u>	<u>3,527,180</u>

See notes to financial statements

Independence Light and Power, Telecommunications

Statement of Cash Flows

Years Ended December 31, 2012 and 2011

	2012	2011
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 979,472	868,537
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	951,958	934,566
Non-operating revenue	87,397	34,688
(Increase) decrease in:		
Accounts receivable	(45,301)	(55,518)
Unbilled revenues receivable	-	(13,388)
Interest receivable	2,703	771
Inventory	(35,428)	(20,533)
Prepaid expenses	1,213	(8,563)
Increase (decrease) in:		
Accounts payable	8,889	7,431
Accrued wages payable	6,601	1,767
Accrued vacation and sick pay	(4,216)	77,334
Other accrued expenses	-	916
Accrued retirement insurance	(27,505)	(43,506)
Net cash provided by operating activities	<u>\$ 1,925,783</u>	<u>1,784,502</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Position:		
Current assets:		
Cash and pooled investments	<u>\$ 4,266,337</u>	<u>3,527,180</u>
Cash and cash equivalents at year end	<u>\$ 4,266,337</u>	<u>3,527,180</u>

See notes to financial statements

Independence Light and Power, Telecommunications

Notes to Financial Statements

December 31, 2012 and 2011

(1) Summary of Significant Accounting Policies

The Independence Light and Power, Telecommunications, municipal utilities, are subdivisions of the City of Independence, which is a political subdivision of the State of Iowa. The Utilities are considered a component unit of the City under Governmental Accounting Standards Board Statement No. 61. Independence Light and Power, Telecommunications are public utilities providing electrical, cable, internet, and telephone services to the citizens of the City of Independence, Iowa.

The Utilities' financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity:

For reporting purposes, Independence Light and Power, Telecommunications have included all funds. The Utilities have also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board sets forth criteria to be considered in determining if the Utilities are a component unit of the City of Independence. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis and the Utilities are governed by a separate Board of Trustees which is appointed by the Mayor subject to the approval of the City Council. The financial statements are the Enterprise Funds of Independence Light and Power, Telecommunications which is a component unit of the City of Independence.

Independence Telecommunications Utility, which provides cable, internet, and telephone services, is legally separate from Independence Light and Power, the Electric Utility, but is financially accountable to the Electric Utility, or whose relationship with the Electric Utility is such that exclusion would cause the Electric Utility's financial statements to be misleading or incomplete. The Telecommunications Utility is governed by the same five-member Board as the Electric Utility, and appointed by the Mayor subject to the approval of the City Council.

B. Basis of Presentation:

The Statement of Net Position (previously referred to as net assets) and the Statement of Revenues, Expenses, and Changes in Net Position report information on all of the nonfiduciary activities of the Utilities. For the most part, the effect of the interfund activity has been removed from these statements.

The Statement of Net Position displays the Utilities' nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in the following categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net position results when constraints placed on asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the Utilities' policy to use unrestricted resources first.

C. Measurement Focus and Basis of Accounting:

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred. The accounting records are maintained in accordance with the uniform system of accounts prescribed by the Federal Energy Regulatory Commission (FERC).

In reporting their financial activity, the Utilities apply all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Utilities' Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principals requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, Liabilities, and Net Assets:

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most Utility funds are pooled and invested. Investments consist of non-negotiable certificates of deposit and investments in transmission which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Cash and cash equivalents for cash flows statements purposes are as follows:

	<u>2012</u>	<u>2011</u>
Cash	\$ 2,500,455	1,793,874
Board designated funds	<u>4,565,882</u>	<u>4,533,306</u>
Total Cash	7,066,337	6,327,180
Less: Certificates of deposit – term longer than three months	<u>(2,800,000)</u>	<u>(2,800,000)</u>
Cash and Cash equivalents	<u>\$ 4,266,337</u>	<u>3,527,180</u>

Accounts Receivable and Unbilled Revenue – Accounts receivable are shown at the amount expected to be collected after determining the allowance for doubtful accounts based on an aging of all the individual customer balances. Unbilled revenue is for the service consumed between periodic scheduled billing dates and is estimated and recognized as revenue in the period in which the service is provided.

Inventories – Inventories are valued at average cost using the first-in/first-out method. Inventories consist of materials and supplies. Inventories are recorded as expenses when consumed rather than when purchased.

Board Designated Funds – These consist primarily of funds designated by the Board of Trustees for the improvement, replacement and expansion of capital assets, future investment in transmission, and future health insurance payments for retired employees. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

Capital Assets – Capital assets, which include property, equipment and vehicles, intangibles and infrastructure assets, were recorded in 1954 at their appraised value with all subsequent additions recorded at cost and are reported on the Statement of Net Position. If items of property are sold, retired, or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts, and any gain or losses thereon are reflected in the Statements of Revenues, Expenditures and Net Position.

The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the Utilities as assets with initial, individual costs in

excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land, buildings and improvements	\$ 75,202
Equipment and vehicles	1,762,207
Infrastructure	19,232,847
Land Rights and Intangibles	223,663
Telecommunications	4,462,668

Capital assets of the Utilities are depreciated/amortized using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50
Improvements other than buildings	15-40
Vehicles	5-10
Equipment and Computers	3-25
Furniture	7-10
Infrastructure	15-55
Land Rights and Intangibles	10-40
Telecommunications equipment	5-25

Revenue - The Statement of Revenues, Expenditures and Changes in Net Position is segregated into operating and non-operating sections. Generally, operating activities are those that directly result from the provision of goods and services to customers or are directly related to the principal and usual activity of the Utilities. Billings to customers are based on meter readings at stated rates, and are recorded as revenue in the corresponding meter-reading period.

Income Taxes - Independence Light and Power, Telecommunications are subdivisions of the State of Iowa and exempt from federal and state income taxes.

(2) Cash and Investments

Independence Light and Power, Telecommunications' deposits in banks at December 31, 2012 and 2011 were covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

In order to offset rising transmission costs, the Independence Light & Power Board of Trustees, through and in conjunction with its membership in the Midwest Municipal Transmission

Group (MMTG), on June 25, 2009 entered into a Joint Agreement as a participating municipal utility with Iowa Public Power Agency (IPPA) for investment rights in the construction or acquisition and ownership of transmission upgrades and additions to Mid American Energy Company's (MEC) transmission system. IPPA is to issue and sell bonds to finance the cost of each agreement and transmission assets are to be operated by MEC. The initial investment and ownership interest is \$122,148 and 8.891%, respectively. If, upon termination of this Joint Agreement, there remains any property or assets in which the parties own an undivided interest, said property or assets shall be disposed of on a pro-rate basis in accordance with the terms of the agreement.

On February 28, 2007, the Utility through and in conjunction with its membership in MMTG, also agreed to participate in the Brookings-Twin Cities Development Project Agreement with the Central Minnesota Municipal Power Agency (CMMMPA) for the purpose of pursuing Development work for a Transmission Project. This Transmission Project (herein after referred to as "the Project") is being undertaken to assist in the maintenance and enhancement of system reliability for electric customers in the upper Midwest region. This agreement addresses the Development phase of the Transmission Project and will be replaced with an agreement providing for ILPT's entitlement and other related rights and arrangements pertaining to the Transmission Project once the development phase is completed. The initial agreement shall be for five years, but can be extended in one year increments until the Development work has been completed. Independence Light and Power, Telecommunications' is an "open participant" in this agreement, meaning that it does not participate in CMMMPA's financing of the Development work and their "Participant Election Share" is 2.43%. Participants are responsible for their share of the monthly Development work costs, whether or not the Transmission Project is actually developed. ILPT's share of the Development work cost is to be \$248,648, of which \$58,003 had been invested as of December 31, 2012.

The carrying value and the approximate market value of the Electric Utility's investment in transmission at December 31, 2012 was \$180,152.

(3) Accounts Receivable

As of December 31, this account consisted of the following:

	<u>2012</u>	<u>2011</u>
Accounts Receivable	\$ 1,009,294	956,448
Less: Allowance for doubtful accounts	(73,033)	(65,488)
Balance	<u>\$ 936,261</u>	<u>890,960</u>

(4) Unbilled Revenues Receivable

Unbilled revenues receivable consist of electric meter usage that has not been read or billed by the Electric Utility. At December 31, 2012 and 2011, these amounts were \$189,892 and \$189,892, respectively.

(5) Inventories

Inventory is stated at the lower of cost or market. At December 31, inventories consisted of the following:

	<u>2012</u>	<u>2011</u>
Fuel oil	\$ 75,823	69,531
Lube oil	1,827	2,436
Distribution	156,868	157,699
Generation	107,832	108,197

Cable and internet supplies	<u>160,406</u>	<u>129,467</u>
	<u>\$ 502,756</u>	<u>467,328</u>

(6) Reserved Funds

The reserved funds are amounts the Board has restricted for specific purposes.

Capital Improvement Fund – At the October 20, 1994 meeting, the Board approved the combining of the Improvement Fund and the Future Construction Fund and called it the Capital Improvement Funds. This fund is to be used for new construction projects and improvements. Monthly transfers to this fund are to be \$15,000. At the February 20, 1997 board meeting, the policy was changed to have \$20,000 transferred to this fund each month. At the February 24, 2005 board meeting, the policy was changed to have \$40,000 transferred to this fund each month. At the February 23, 2006 board meeting, the policy changed to have up to \$20,000 transferred to this fund each month. During 2012, monthly transfers totaled \$140,000 into the fund. Transfers from the fund during the year totaled \$111,366 for capital improvement projects.

Retirement and Severance Fund – The Board of Trustees has reserved this to pay for future health insurance coverage for retired employees. It also helps fund the accrued vacation and sick leave for current employees. This fund is to equal the combined retirement and severance liabilities. \$7,700 is transferred into this fund each month. During 2012, \$92,400 was transferred into the fund.

Self Insurance Fund – The Board of Trustees has reserved the amounts in this fund to replace the distribution system that might be destroyed by a natural disaster. This reduces the amount of insurance premium that would be incurred if an outside insurer were paid for this coverage. Prior to October 1994, this fund was funded with all interest income received. At the October 20, 1994 board meeting, the policy was changed to have \$2,500 transferred to this fund each month. At the July 25, 1996 board meeting, the policy was changed retroactive to June 1996 to have \$15,000 transferred to this fund each month. In December 1996, the Board of Trustees approved an additional transfer of \$25,000 to the fund. At the February 20, 1997 board meeting, the policy was changed to have \$20,000 transferred to this fund each month. At the February 24, 2005 board meeting, the board approved a transfer of \$181,596 to this fund from the Retirement and Severance Fund, and approved capping this fund at \$1,000,000. At the November 19, 2009 board meeting, the board approved a transfer of \$250,000 to this fund from the checking account. At the August 25, 2011 board meeting the board approved a donation to the Mustang Foundation for the building of the new Junior-Senior High School for \$500,000 to be paid from this fund. As of December 31, 2012 \$350,000 of this amount had been paid. The remaining \$150,000 will be transferred from this fund over the next two years. The board has approved a payback schedule of monthly transfers for \$8,333.34 for 60 months from revenues to the Self Insurance Fund.

At the April 19, 2007 Board of Director's meeting, it was approved to create a new restricted fund - Investment in Transmission. The funds will be used for future transmission capital investing.

(7) Capital Assets

Capital Assets Not Being Depreciated:	<u>2012</u>	<u>2011</u>
Land	\$ 244,162	244,162
Construction in Progress	<u>-</u>	<u>-</u>
Total Capital Assets Not Being Depreciated	<u>\$ 244,162</u>	<u>244,162</u>

Capital Assets Being Depreciated:

Telecommunications Outside Plant	\$ 2,307,919	2,307,919
Buildings and Improvements	123,781	104,015
Generation in Service	8,772,295	8,765,743
Distribution in Service	8,152,633	8,121,655
Office and Office Equipment	979,997	986,860
Small Tools	55,946	55,946
Transportation	1,100,929	875,374
Cable and Internet Equipment	<u>4,018,925</u>	<u>3,827,624</u>
Total Capital Assets Being Depreciated	25,512,425	25,045,136
Less Accumulated Depreciation	(<u>15,562,735</u>)	(<u>14,713,881</u>)
Net Capital Assets Being Depreciated	<u>9,949,690</u>	<u>10,331,255</u>
Net Capital Assets	<u>\$ 10,193,852</u>	<u>10,575,417</u>

(8) Accrued Vacation and Sick Pay

At December 31, 2012 and 2011, Independence Light and Power, Telecommunications had accrued vacation payable of \$90,287 and \$85,299, respectively. An employee may carry forward only five days of vacation from one year to the next. An employee earns their vacation days on their anniversary date.

All full-time employees accrue sick leave at a rate of 2 days per month up to a maximum of two-hundred-eighty (280) days. Upon retirement, medical disability, or death, an employee will be paid up to fifty percent of 240 days of his or her accumulated sick leave. Per Board policy, Management is eligible to receive one hundred percent of 240 days of his or her accumulated sick leave if certain requirements are met. At December 31, 2012 and 2011, the accumulated sick leave was \$500,669 and \$815,831, respectively.

During the year, management applied a change in estimate of the sick leave accrual. Previously the estimate was based on the anticipation that sick leave accrued would be paid out to all employees upon termination of employment at one hundred percent of their days accrued up to the maximum of 280 days. Management changed their anticipation of what would be paid out to employees upon termination during the year to be in agreement with sick leave accrual policy per union contracts and Board policy.

(9) Termination Benefit - Accrued Retirement Insurance

During 1986, the Board of Trustees voted to recognize the probable liability of retirement health insurance coverage by appropriating funds for this purpose, based on the life expectancy of each retiree. The amount of probable liability was determined using life expectancy tables and a variable health care inflation assumption and those amounts were placed in a long-term investment. The Utilities will recognize the liability incurred and accordingly restrict the equivalent amount of cash. The criteria for determining eligibility includes years of service and employee age. The benefit is available to the spouse for up to three months after the death of the retiree. At December 31, 2012 and 2011, Independence Light and Power, Telecommunications had accrued retirement insurance of \$455,221 and \$482,726.

At a July 2004 Board of Trustees meeting, the Utilities adopted a resolution stating that future retirees would not be provided retirement health insurance coverage. Current retirees and spouses will continue to be covered under the plan.

At December 31, 2012 and 2011, Independence Light and Power, Telecommunications covered 10 retired employees and 7 retired employee's retired spouses and 11 retired employees and 9 retired employee's spouses, respectively.

Plan Description - The Utilities operate a single-employer benefit plan which provides medical/prescription drug benefits or Medicare supplement, if applicable, for employees, retirees and their spouses. There are 20 active employees and 17 retired employees and their spouses in the plan.

Funding Policy - The contribution requirements for plan members are established by the Utility board and may be amended. The Utilities currently finance the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the active Utility employees are \$373 for single coverage, \$764 for single plus spouse, \$707 for single plus child, and \$1,146 for family coverage. The retiree Medicare supplemental premiums for the Utility are \$204 per retired member. For the years ended December 31, 2012 and 2011, the Utilities contributed \$290,471 and \$324,795 for health insurance premiums and their employer portion of the self-funded premiums for active and retired employees, respectively.

(10) Pension and Retirement Benefits

Independence Light and Power, Telecommunications contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, IA 50306-9117.

As of January 1, 2012, plan members were required to contribute 5.38% of their annual covered payroll and the Utility is required to contribute 8.07% of covered payroll. The rates changed effective July 1, 2012 and the required contribution rates were 5.78% for plan members and 8.67% for the Utility. Contribution requirements are established by state statute. The contributions paid to IPERS by Independence Light and Power, Telecommunications for the years ended December 31, 2012, 2011, and 2010 were \$101,625, \$93,961, and \$83,184 and respectively, equal to the required contributions for each year.

(11) Long-Term Debt

The Utility issued an Electric Revenue Improvement and Refunding Note dated August 1, 2005. The balance at December 31, 2010 was \$4,136,993. On July 21, 2011 the Utility signed an Agreement to Amend Terms of Electric Revenue Improvement and Refunding Note, Series 2005, which changed the note from a variable rate to a fixed rate of 2.70% as of August 1, 2011. Monthly principal and interest payments are now \$40,736.91 beginning September 1, 2011. The balance at December 31, 2012 was \$3,151,839. Beginning January 1, 2012, the Utility began paying an additional \$8,700 per month to reduce principal on the loan; the required principal and interest payment per month totals \$49,436.91.

The electric revenue note is a revenue note issued under the provisions of Chapter 384 of the Code of Iowa and, as such, the principal and interest are payable from the revenue from operations of the Utility. The details of the Independence Light & Power's indebtedness are as follows:

Year Ending December, 31	Interest Rate	Principal	Interest	Total
2013	2.70	510,204	83,039	593,243
2014	2.70	524,130	69,113	593,243
2015	2.70	538,458	54,785	593,243
2016	2.70	553,154	40,089	593,243
2017 – 2019	2.70	<u>1,025,893</u>	<u>34,416</u>	<u>1,060,309</u>
Total		<u>\$ 3,151,839</u>	<u>281,442</u>	<u>3,433,281</u>

Independence Light & Power reserves the right to prepay principal on this note in whole or in part at any time prior to and in any order of maturity on terms of par and accrued interest.

In 2010 Independence Light & Power received a \$300,000 loan from the United States Department of Agriculture in order to establish a revolving loan fund. The Utility also was required to contribute \$60,000 of its own funds towards the revolving loan fund. The total of \$360,000 is available for the Utility to make loans to customers for economic development purposes. As the funds are paid back, the Utility is able to loan the funds to other customers. During the year 2010, the entire balance of \$360,000 was loaned to the Buchanan County Health Center (BCHC) for their ambulance addition and remodeling project as a seven year, zero interest loan. As of December 31, 2012 and 2011 the loan receivable balances were \$240,000 and \$291,429, respectively.

In 2012 the Utility received a \$707,750 loan from the United States Department of Agriculture (USDA) in the role of an intermediary for the final recipient, Wapsie Valley Creamery, Inc. The loan is provided as part of the Rural Economic Development Loan and Grant Program, runs for ten years, and carries an interest rate of zero. The Utility is to collect monthly principal from Wapsie Valley Creamery, Inc. in the amount of \$5,898 and remit to the USDA. Balance outstanding at December 31, 2012 was \$654,668.

(12) Related Party Transactions

Independence Light and Power, Telecommunications provides electrical service to the City of Independence. During the years ended December 31, 2012 and 2011, the charges for this electrical service were \$317,952 and \$328,257, respectively. In addition, the City paid \$23,880 and \$23,761, respectively, for meter reading.

During 2012 and 2011, Independence Light & Power, Telecommunications donated \$156,000 to the City of Independence.

(13) Lease Agreements

Independence Light and Power, Telecommunications has a Joint Use Contract with CenturyLink Corporation (formerly Qwest Corporation). Both parties own poles used by the other party. A lease of \$16.79 per pole is paid to the owner. The net amount, (Joint Use Poles owned by the Independence Light and Power, Telecommunications less the number of Joint Use Poles owned by CenturyLink Corporation) was 518 poles. During the years ended December 31, 2012 and 2011, Independence Light and Power, Telecommunications received \$9,548 and \$8,697, respectively.

The Utilities also have a Joint Use Contract with Mediacom. Both parties own poles used by the other party. A lease of \$16.79 per pole is paid to the owner. The net amount, (Joint Use Poles owned by the Independence Light and Power, Telecommunications less the number of Joint Use Poles owned by Mediacom) was 1,773 poles. During the years ended December 31, 2012 and 2011, Independence Light and Power, Telecommunications received \$29,769 and \$30,625 and respectively.

(14) Commitments

On March 2, 2006, the Electric Utility signed a letter of intent to purchase power from Wisconsin Public Power, Inc. (WPPI). The letter of intent states the contract period will be from May 1, 2006 through December 31, 2037 with an average wholesale cost of power projected to be \$58.28/MWh for 2006. An official contract for service was approved and signed at the April 20, 2006 meeting of the board of directors.

At the August 25, 2011 board meeting it was agreed to pledge a donation of \$500,000 to the Mustang Foundation's "Bridge the Gap" campaign to build a new Junior-Senior High School in Independence. The donation is to be used for energy efficient equipment for the new school. As of December 31, 2012, \$350,000 of the pledge had been paid with the remainder to be paid over the next two years.

(15) Risk Management

Independence Light and Power, Telecommunications is exposed to various risks of loss related to torts, theft, damages, and natural disaster. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage for the past four years.

(16) Subsequent Events

In September 2013, the Independence Light & Power Board passed a resolution approving the application for an additional USDA Rural Development Loan to be passed through to Wapsie Valley Creamery. The \$2 million loan is to be paid off in 10 years with monthly payments. WVC plans to use the funds to continue the expansion projects.

In September 2013, the Independence Light & Power Board also passed a resolution approving the sale of generators for \$452,004. It was decided to decommission and retire the remaining generators by separate resolution.

In November 2013, the Independence Light & Power Board passed a resolution approving the sale of a Caterpillar generator and associated equipment to WVC for \$100,000.

Required Supplementary Information

Independence Light and Power, Telecommunications

Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Position
Budget to Actual (Cash Basis)

December 31, 2012

	Accrual Basis	Accrual Adjustments	Cash Basis	Budget	Final to Actual Cash Basis Variance
Total Revenues	\$ 11,949,402	401,445	12,350,847	12,004,948	345,899
Total Expenditures	(10,629,147)	(714,527)	(11,343,674)	(11,695,631)	351,957
Net	1,320,255	(313,082)	1,007,173	309,317	697,856
Balance, Beginning of year	12,772,447	(10,020,505)	2,751,942	3,090,016	338,074
Balance, End of year	<u>\$ 14,092,702</u>	<u>(10,333,587)</u>	<u>3,759,115</u>	<u>3,399,333</u>	<u>(359,782)</u>

See accompanying independent auditor's report.

Independence Light and Power, Telecommunications

Notes to Required Supplementary Information – Budgetary Reporting

December 31, 2012

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for their financial statements.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end. Disbursements did not exceed amounts budgeted at December 31, 2012.

Other Supplementary Information

Independence Light and Power, Telecommunications

Treasurer's Balance

December 31, 2012

	Checking and Savings Accounts	Time Deposits	Total	Maximum Authorized Deposit
Security State Bank Independence, Iowa	\$ -	589,759	589,759	6,000,000
Cash on Hand			-	
Deposits in transit			-	
Outstanding checks			-	
Balance			<u>589,759</u>	
BankIowa Independence, Iowa	3,055,554	3,600,000	6,655,554	6,000,000
Cash on Hand			800	
Deposits in transit			-	
Outstanding checks			<u>(179,776)</u>	
Balance			<u>6,476,578</u>	
Total			<u><u>\$ 7,066,337</u></u>	

See accompanying independent auditor's report.

Independence Light and Power, Telecommunication

Schedule of Operating Expenses

Years Ended December 31, 2012 and 2011

	2012	2011
Generation Expenses:		
Purchased power	\$ 5,373,941	5,175,095
Fuel oil expense	137,058	39,566
Natural gas - engines	-	84
Natural gas - boiler	21,034	22,817
Operating expenses	5,363	1,783
Generating vacation and sick leave	65,876	50,166
Supervision	133,010	101,365
Maintenance of generators and equipment	45,541	52,756
Miscellaneous generation expenses	95,331	139,230
	<u>5,877,154</u>	<u>5,582,862</u>
Distribution Expenses:		
Operation and maintenance of overhead	87,827	51,957
Operation and maintenance of underground	52,800	44,674
Operation and maintenance of transformers	1,054	2,140
Operation and maintenance of street lights	288	1,098
Operation and maintenance of security lights	4,054	2,689
Operation and maintenance of meters	10,458	11,621
Operation and maintenance of customer services	48,648	27,566
Operation and maintenance of traffic signals	27	495
Operation and maintenance of substation	19,138	314
Distribution supervision	36,101	94,380
General distribution labor	32,546	30,378
Distribution vacation and sick leave	53,684	50,848
Miscellaneous distribution expenses	41,741	53,764
	<u>388,366</u>	<u>371,924</u>
Customer Accounts Expense:		
Customer records and collections	100,883	97,096
Bad debt expense	8,779	4,798
Meter reading	23,247	22,501
	<u>132,909</u>	<u>124,395</u>

Administration and General Expenses:

Office salaries	151,061	152,581
Office vacation and sick leave	45,614	47,478
Property insurance	88,784	76,528
Outside services	36,911	44,413
Office supplies, telephone, and postage	17,982	18,215
Employer FICA	70,582	69,355
Employer IPERS	73,131	70,269
Maintenance - general	8,822	6,770
Miscellaneous expense	55,634	60,587
Uniforms	5,784	5,189
Safety expenses and equipment	12,769	12,301
Employee benefits	191,461	203,706
Energy efficiency programs	11,875	15,932
Marketing	1,263	8,078
Transportation	56,483	57,755
	<u>828,156</u>	<u>849,157</u>
Cable and internet expenses	<u>2,052,269</u>	<u>1,738,789</u>
Depreciation and amortization expenses	<u>951,958</u>	<u>934,566</u>
Benefits to Community and City:		
Cash donations to city	156,000	156,000
Labor benefits to city	40,596	43,438
Community benefits	107,905	258,142
	<u>304,501</u>	<u>457,580</u>
Total Operating Expenses	<u>\$ 10,535,313</u>	<u>10,059,273</u>

See accompanying independent auditor's report.

INDEPENDENCE LIGHT and POWER, TELECOMMUNICATIONS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended December 31, 2012

<u>Federal Grantor / Program</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program Expenditures January 1,2012 to December 31, 2012</u>
<u>DIRECT:</u>			
<u>U.S. Department of Agriculture:</u>			
Rural Economic Development Loans and Grants	10.854	Perpetual	\$ -
Rural Economic Development Loans and Grants	10.854		707,750
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 707,750</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of Independence Light & Power, Telecommunications Utilities and is presented on the accrual or modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.
Jeremy P. Lockard, C.P.A.

14 East Charles St, PO Box 639
Oelwein, IA 50662
(319)283-1173
Fax (319)283-2799

Independent Auditor's Report on Internal Control over Financial
Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Trustees
Independence Light and Power, Telecommunications
Independence, Iowa 50644

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business type activities of Independence Light & Power, Telecommunications, Independence, Iowa, as of and for the years ended December 31, 2012 and 2011, and the related notes to financial statements, which collectively comprise the Utilities' basic financial statements listed in the table of contents, and have issued our reports thereon dated November 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independence Light & Power, Telecommunications' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independence Light & Power, Telecommunications' internal control. Accordingly, we do not express an opinion on the effectiveness of Independence Light & Power, Telecommunications' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a deficiency in internal control we consider to be a material weakness and a deficiency in internal control we consider to be a significant deficiency.

A deficiency in internal control exists when the design and operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of Independence Light & Power, Telecommunications' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-12 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part

II of the accompanying Schedule of Findings and Questioned Costs as items II-B-12 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independence Light & Power, Telecommunications' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Governmental Auditing Standards. However we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2012 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Independence Light & Power, Telecommunications' Responses to Findings

Independence Light & Power, Telecommunications' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Independence Light & Power, Telecommunications' responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Utilities' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Independence Light & Power, Telecommunications during the course of our audit. Should you have any questions concerning the above matters, we shall be pleased to discuss them with you at your convenience.

Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

RIDIHALGH, FUELLING, SNITKER, WEBER & CO., P.C., C.P.A.'S

November 21, 2013

James R. Ridihalgh, C.P.A.
Gene L. Fuelling, C.P.A.
Donald A. Snitker, C.P.A.
Jeremy P. Lockard, C.P.A.

14 East Charles St, PO Box 639
Oelwein, IA 50662
(319)283-1173
Fax (319)283-2799

Independent Auditor's Report on Compliance
for Each Major Federal Program, on Internal Control over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

To the Board of Trustees
Independence Light and Power, Telecommunications
Independence, Iowa 50644

Report on Compliance for Each Major Federal Program

We have audited Independence Light and Power, Telecommunications' compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on Independence Light and Power, Telecommunications' major federal program for the year ended December 31, 2012. Independence Light and Power, Telecommunications' major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Independence Light and Power, Telecommunications' major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independence Light and Power, Telecommunications' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination on Independence Light and Power, Telecommunications' compliance.

Opinion on Each Major Federal Program

In our opinion, Independence Light and Power, Telecommunications complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The management of Independence Light and Power, Telecommunications is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independence Light and Power, Telecommunications' internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independence Light and Power, Telecommunications' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



RIDIHALGH, FUELLING, SNITKER, WEBER & CO., P.C., C.P.A.'S

November 21, 2013

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2012

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 10.854 – Rural Economic Development Loans and Grants.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Independence Light & Power, Telecommunications did not qualify as a low-risk auditee.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2012

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

II-A-12 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – Independence Light and Power, Telecommunications is a small municipal utility with an office staff consisting of two billing clerks, one accounts payable clerk, one receptionist and an office manager. The billing clerks, accounts payable clerk and receptionist can receipt in cash and checks. Balancing the two cash drawers to the cash receipts software is rotated on a daily basis, depending on workload. The billing clerks prepare the deposit tickets. All cash customers are given a receipt and all others are asked if they want a receipt. A printed receipt is put in the cash drawer for all cash and checks received listing the dollar amount and become part of our permanent records. The office manager and billing clerks investigate any customer complaints regarding receipts. In a municipal utility, there are serious consequences for delinquent invoices, therefore, if a customer has paid their invoice and has not received credit for it they will probably file a complaint. Our software allows searches on a specific dollar amount paid and receipts can be physically looked at as they are filed by date received and batch in which they were entered. A software generated tape of the receipts is attached to the grouping.

The accounts payable clerk enters invoices and prepares checks. Invoices are approved by the general manager or assistant general manager. All checks require two signatures by either the general manager, the assistant general manager, or the office manager. The office manager reconciles the bank statement each month and prepares a report for the Board of Trustees. The Board of Trustees approves all payments. All checking account withdrawals and deposits are tied back to the accounting software.

All payroll timesheets are approved by department supervisors and is prepared by the office manager. The general manager approves timesheets for supervisors and reviews all deposit advises.

Conclusion – Response acknowledged.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2012

II-B-12 Preparation of Financial Statements - Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles (GAAP). The Utilities do not have an internal control system designed to provide for the preparation of the financial statements, including accompanying footnotes, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an entity of this size.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of the Utilities' management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response - Management feels that committing the time necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on an ongoing basis. Internal financial statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion - Response acknowledged.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2012

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2012

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-12 Certified Budget – Disbursements during the year ended December 31, 2012 did not exceed the amounts budgeted in the business type activities functions.

IV-B-12 Questionable Disbursements – We noted no specific individual questionable disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979. However, we noted instances of monthly credit card statements containing charges that were not supported with receipts or other documentation supporting the credit card charges or detailing public purpose.

According to the opinion, it is possible for such expenditures to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – Management should determine and document the public purpose served by these expenditures before authorizing any further payments. Proper documentation supporting each expenditure and public purpose should be attached to credit card statements before payment is submitted.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-C-12 Travel Expense – No disbursements of Utilities' money for travel expenses of spouses of Utility officials or employees were noted. However, an expenditure for moving mileage was reimbursed at a rate in excess of the amount allowable. Per Iowa Code Chapter 70A.9, mileage should not be paid at a rate in excess of the amount allowable under Federal Internal Revenue Service rules. The above noted expenditure was improperly reimbursed at the IRS business rate instead of the IRS moving rate.

Recommendation – Management should be cognizant of the type of mileage that is to be reimbursed and should apply the appropriate mileage rate for each type as determined by Federal Internal Revenue Service rules when reimbursing employees' mileage.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-D-12 Business Transactions – There were no material business transactions between the Utility and Utility officials or employees.

IV-E-12 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

Independence Light and Power, Telecommunications

Schedule of Findings and Questioned Costs

Year ended December 31, 2012

IV-F-12 Board of Trustees Minutes – Minutes do not contain a summary of receipts. Iowa Code Chapter 372.13(6) states the published Board minutes “shall include ... a summary of all receipts.”

Recommendation – Signed copies kept on file and published copies of Board minutes should include a summary of all receipts.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-G-12 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12 C of the Code of Iowa. A resolution naming official depositories has been approved by the Utility. The maximum deposit amounts stated in the resolution were exceeded during the year ended December 31, 2012.

Recommendation – The Board should approve a transfer of funds to a separate, approved depository to bring current deposits back in compliance with maximum amounts allowed per the resolution, or the Board should pass a new resolution increasing the depository limits allowed.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

IV-H-12 Revenue Notes – We noted no instances of noncompliance with the Electric Revenue Note provisions.

IV-I-12 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

Staff

This audit was performed by:

Gene Fuelling, CPA, Engagement Partner
Jeremy P. Lockard, CPA, Manager
Dana J. Elliott, CPA
Donald A. Snitker, CPA
Brent Waters, Staff
James Remington, Staff